

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Charter Township of East China, Michigan</b>		County <b>St. Clair</b>
Audit Date <b>12-31-05</b>	Opinion Date <b>04-07-06</b>	Date Accountant Report Submitted to State: <b>06-13-06</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)

**Stewart, Beauvais & Whipple PC**

Street Address

**1979 Holland Aveue**

City

**Port Huron**

State

**MI**

ZIP

**48060**

Accountant Signature

*Stewart, Beauvais & Whipple*

Date

**06-13-06**

**CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN**

**ANNUAL FINANCIAL REPORT  
with Supplementary Information**

**FOR THE YEAR ENDED  
DECEMBER 31, 2005**

Stewart,  
Beauvais  
& Whipple P.C.

---

CERTIFIED PUBLIC ACCOUNTANTS



# CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

## TABLE OF CONTENTS DECEMBER 31, 2005

	<u>Page Number</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	3
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Assets – Proprietary Funds	16
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Combining Statement of Net Assets - Discretely Presented Component Units	21
Combining Statement of Activities - Discretely Presented Component Units	22
Notes to the Basic Financial Statements	24
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual General Fund	42
Township Improvement Fund	43

# CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

## TABLE OF CONTENTS DECEMBER 31, 2005

	<u>Page Number</u>
<b>Supplementary Information:</b>	
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds –	
Combining Balance Sheet	44
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	45
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Building Inspection Fund	46
<b>Fiduciary Funds:</b>	
Current Tax Fund –	
Statement of Changes in Assets and Liabilities	47

## INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members  
of the Township Board  
Charter Township of East China  
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the Charter Township of East China, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of East China's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of East China, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006 on our consideration of the Charter Township of East China's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of those testings, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 42 and 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of East China's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

April 7, 2006

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of East China's 2005 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

#### *Government-wide Financial Statements*

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

**Governmental activities** – most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services, provide most of the funding.

**Business-type activities** – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer operations are treated as business-type activities.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has four kinds of funds:

**Governmental Funds** - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

**Proprietary Funds** – are used to report services for which the Township charges customers a fee for those services. The Township has two enterprise funds, the Water and Sewer Funds.

**Internal Service Funds** – report activities that provide services and supplies to other Township programs. The Township utilizes a Department of Public Works internal service fund.

**Fiduciary Funds** – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

## FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$14,982,428. This is an increase of \$224,707 over 2004. Government-type activities comprise \$4,640,432, and business-type activities make up \$10,341,996 of the total net assets. In a condensed format, the table below shows net assets as of the December 31, 2005 and 2004.

### In Thousands

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
<b>Assets</b>				
Current assets	\$ 3,738	\$ 3,506	\$ 1,453	\$ 1,118
Restricted assets	-	-	332	325
Noncurrent assets	<u>2,679</u>	<u>2,813</u>	<u>13,578</u>	<u>13,945</u>
Total assets	<u>6,417</u>	<u>6,319</u>	<u>15,363</u>	<u>15,388</u>
<b>Liabilities</b>				
Current liabilities	1,667	1,553	143	111
Liabilities payable from Restricted assets	-	-	579	567
Long-term liabilities	<u>110</u>	<u>172</u>	<u>4,299</u>	<u>4,547</u>
Total liabilities	<u>1,777</u>	<u>1,725</u>	<u>5,021</u>	<u>5,225</u>
<b>Net Assets</b>				
Invested in capital assets – Net of related debt	2,679	2,813	9,010	9,041
Restricted	628	630	2	5
Unrestricted	<u>1,333</u>	<u>1,151</u>	<u>1,330</u>	<u>1,117</u>
Total net assets	<u>\$ 4,640</u>	<u>\$ 4,594</u>	<u>\$ 10,342</u>	<u>\$ 10,163</u>

The Township governmental activities experienced a net change in assets of \$46,020. The main reasons for the change is that the general fund experienced revenues over expenditures of \$147,439 and the internal service fund used by management to charge costs of the Township's department of public works activities experienced expenses in excess of revenues of \$100,152.



The following table shows the changes in net assets for 2005 and 2004.

**In Thousands**

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 133	\$ 147	\$ 1,400	\$ 1,242
Operating grants and contributions	3	2	-	-
Capital grants and contributions	-	36	-	56
General revenue:				
Property taxes	1,439	1,399	320	323
Unrestricted grants	261	273	-	-
Unrestricted investment earnings	82	43	26	14
Transfers	(171)	(73)	180	73
Total Revenue	<u>1,747</u>	<u>1,827</u>	<u>1,926</u>	<u>1,708</u>
<b>Program Expenses</b>				
General government	546	563	-	-
Public safety	402	330	-	-
Public works	442	296	-	-
Recreation and cultural	257	257	-	-
Other activities	51	35	-	-
Interest on Debt	3	11	-	-
Water and sewer	-	-	1,747	1,701
Total Program Expenses	<u>1,701</u>	<u>1,492</u>	<u>1,747</u>	<u>1,701</u>
<b>Changes in net assets</b>	<u>\$ 46</u>	<u>\$ 335</u>	<u>\$ 179</u>	<u>\$ 7</u>

***Governmental Activities***

Revenues for governmental activities totaled \$1,918,361 in 2005. Of this amount, \$1,438,766 was received from taxes, which was an increase of \$39,795 from the prior year. The next largest revenue sources was Federal and State revenue \$264,180, a decrease of \$27,975 from 2004.

***Business-type Activities***

The Township has two business-type activities, the water and sewer operations. Total revenues including interest income and transfers was \$1,925,719 and expenses were \$1,747,032 for a change in net assets of \$178,678. This included a transfer in from the governmental fund and component units of \$170,874 and \$9,178, respectively.

## **FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS**

### ***Governmental Fund***

The General fund ended 2005 with a fund balance of \$525,897, with \$97,425 reserved for prepaid expenditures, \$58,225 designated for tax appeal, with the remaining balance of \$370,247 unreserved/undesignated. The general fund balance increased \$147,439 from the prior year mainly as a result of an increase in tax revenue in 2005 of \$148,150. The Townships other major governmental funds had the following revenues over (under) expenditures as follows:

- Township Improvement Fund had revenues in excess of expenditures of \$14,209 due to only \$8,559 of expenditures incurred in this fund during the year.
- Capital Projects Fund had revenues in excess of expenditures of \$127,650 due to property tax collections of \$213,145 with only \$160,025 of capital outlay relating to road maintenance and GIS fees of \$59,935 and \$31,119, respectively.

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. The most significant amendment was to Other Expenditures to reduce the budget by \$58,225 for designation of funds for the tax appeal.

The Township Improvement Fund budget was reduced by \$30,000 to allow for designation of funds for tax appeal and reduced by \$60,000 for capital improvements not incurred.

### ***Business-type Activities***

As indicated earlier the Township only has two business-type activities, the water and sewer operations. Total revenues amounted to \$1,925,719 for 2005 and expenses were \$1,747,032 for an increase in net assets of \$178,687. Most of this increase is a result of increased water and sewer user charges of \$102,030 with the remaining increase from equipment charges and interest \$48,990 and \$11,572, respectively.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### ***Capital Assets***

The Township had \$16,257,073 invested in capital assets for its government and business-type activities (net of accumulated depreciation) as of December 31, 2005. The investment in a capital asset includes land, land improvements, buildings and improvements, machinery and equipment, and water and sewer lines. During the year the Township added \$202,549 of capital assets, \$62,461 in the government activities and \$140,088 in the business-type activities.

Of the business-type activities, \$119,082 was for water tower repairs, with the remaining purchases for building improvements.

Of the governmental activities, \$18,961 was for media equipment, with the remaining purchases for building and land improvements.

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Land	\$ 124,442	\$ 124,442	\$ 72,530	\$ 72,530
Land improvements	2,517,688	2,490,138	-	-
Building and Improvements	963,631	1,010,958	7,992,885	7,992,885
Equipment	631,108	548,870	699,891	684,323
Water and sewer	-	-	12,141,517	12,016,898
	4,122,427	4,174,408	20,834,293	20,766,636
Accumulated depreciation	( 1,557,534)	( 1,361,105)	( 7,329,085)	( 6,911,551)
	<u>\$ 2,679,335</u>	<u>\$ 2,813,303</u>	<u>\$ 13,577,738</u>	<u>\$ 13,855,085</u>

Additional information on the Township's capital assets can be found in Note 8 to the financial statements.

### ***Long-Term Debt***

At December 31, 2005 the Township's had \$4,660,716 in long-term debt compared to \$4,966,349 at December 31, 2004, a decrease of \$305,633 from the prior year. The following table shows the long-term debt at December 31, 2005 and 2004:

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Sewage Disposal System				
Contract Payable	\$ -	\$ 114,432	\$ -	\$ -
Environmental Quality				
Bond Contract Payable	-	-	4,541,172	4,788,934
Compensated Absences	110,119	57,409	9,425	5,574
	<u>\$ 110,119</u>	<u>\$ 171,841</u>	<u>\$ 4,550,597</u>	<u>\$ 4,794,508</u>

### **ECONOMIC FACTORS AND NEXT YEARS BUDGET**

For 2006, the Township Board adopted a general fund budget with estimated revenues of \$1,488,315 and expenditures of \$1,494,525. This is approximately a 9% increase of expenditures from the 2005 budget and will result in a reduction of \$6,210 in fund balance. Although local municipalities in the State of Michigan have seen State Shared Revenues decrease significantly during the past few years, the 2006 budget does not anticipate any significant cuts. The increase in expenditures is expected to be basically stable with no anticipated major increases.

During the first part of 2006, the Township Board increased water rates by approximately 5% and sewer rates by approximately 1.5%. One of the major projects for the summer is the painting of the interior of one of the water towers.

## **CONTACTING THE TOWNSHIP**

This financial report is designed to provide a general overview of the Township's finances to our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 765-8879.

## **BASIC FINANCIAL STATEMENTS**

# CHARTER TOWNSHIP OF EAST CHINA

## St. Clair County, Michigan

### STATEMENT OF NET ASSETS DECEMBER 31, 2005

	Primary Government			Component
	Governmental	Business Type	Total	Units
	Activities	Activities		
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,330,947	\$ 844,807	\$ 2,175,754	\$ 452,543
Investments	928,084	208,221	1,136,305	256,190
Receivables	1,364,912	237,481	1,602,393	23,219
Due from primary government	-	-	-	95,988
Deposit with authority	-	48,900	48,900	-
Inventory	-	14,128	14,128	-
Prepaid expenses	113,914	9,604	123,518	29,437
Restricted Assets -				
Cash and cash equivalents	-	52,539	52,539	-
Investments	-	1,598	1,598	-
Taxes receivable	-	277,845	277,845	-
Other Assets -				
Advance to component unit	-	90,318	90,318	-
Capital Assets (net of accumulated depreciation)-				
Assets not being depreciated	124,442	72,530	196,972	-
Assets being depreciated	2,554,893	13,505,208	16,060,101	-
Total Assets	<u>6,417,192</u>	<u>15,363,179</u>	<u>21,780,371</u>	<u>857,377</u>
<b>LIABILITIES:</b>				
Payables and accrued liabilities	185,804	8,510	194,314	63,177
Accrued interest	-	3,118	3,118	-
Advances and deposits	3,662	8,221	11,883	56,000
Deferred revenue	1,477,175	-	1,477,175	-
Bond payable (current)	-	27,152	27,152	-
Due to component unit	-	95,988	95,988	-
Liabilities Payable From Restricted Assets-				
Bonds payable (current)	-	224,004	224,004	-
Deferred revenue	-	329,485	329,485	-
Accrued interest	-	25,264	25,264	-
Non-Current liabilities-				
Due in more than one year				
Contracts payable	-	4,290,016	4,290,016	-
Advance from primary government	-	-	-	90,318
Accrued vacation and sick leave	110,119	9,425	119,544	68,832
Total Liabilities	<u>1,776,760</u>	<u>5,021,183</u>	<u>6,797,943</u>	<u>278,327</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related liabilities	2,679,335	9,008,184	11,687,519	-
Restricted-				
Debt retirement	-	2,497	2,497	-
Cemetery perpetual care				
Nonexpendable	45,136	-	45,136	-
Capital projects	582,971	-	582,971	-
Unrestricted	1,332,990	1,331,315	2,664,305	579,050
Total Net Assets	<u>\$ 4,640,432</u>	<u>\$ 10,341,996</u>	<u>\$ 14,982,428</u>	<u>\$ 579,050</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General Government	\$ 567,632	\$ 58,972	\$ -	\$ -
Public Safety	402,056	69,773	2,120	-
Public Works	441,550	750	710	-
Recreation and Culture	257,021	3,776	-	-
Other Activities	30,231	-	-	-
Interest on Long Term Debt	2,977	-	-	-
Total governmental activities	<u>1,701,467</u>	<u>133,271</u>	<u>2,830</u>	<u>-</u>
Business type activities				
Water Fund	935,387	757,730	-	-
Sewer Fund	811,645	642,394	-	-
	<u>1,747,032</u>	<u>1,400,124</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u><u>3,448,499</u></u>	<u><u>1,533,395</u></u>	<u><u>2,830</u></u>	<u><u>-</u></u>
<b>Component Units</b>				
Sewer/Water Authority	1,060,290	1,060,290	-	93,000
Brownfield Development Authority	90,127	-	-	-
Total Component Units	<u><u>1,150,417</u></u>	<u><u>1,060,290</u></u>	<u><u>-</u></u>	<u><u>93,000</u></u>

General revenues:  
Property taxes  
Grants and contribution not -  
restricted to specific programs  
Unrestricted investment income  
Transfers  
Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Units
Governmental Activities	Business Type Activities		
\$( 508,660)	\$ -	\$( 508,660)	\$ -
( 330,163)	-	( 330,163)	-
( 440,090)	-	( 440,090)	-
( 253,245)	-	( 253,245)	-
( 30,231)	-	( 30,231)	-
( 2,977)	-	( 2,977)	-
<u>( 1,565,366)</u>	<u>-</u>	<u>( 1,565,366)</u>	<u>-</u>
-	( 177,657)	( 177,657)	-
-	( 169,251)	( 169,251)	-
<u>-</u>	<u>( 346,908)</u>	<u>( 346,908)</u>	<u>-</u>
<u>( 1,565,366)</u>	<u>( 346,908)</u>	<u>( 1,912,274)</u>	<u>-</u>
-	-	-	93,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>( 90,127)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,873</u>
1,438,766	319,659	1,758,425	65,638
261,350	-	261,350	-
82,144	25,884	108,028	19,280
<u>( 170,874)</u>	<u>180,052</u>	<u>9,178</u>	<u>( 9,178)</u>
<u>1,611,386</u>	<u>525,595</u>	<u>2,136,981</u>	<u>75,740</u>
46,020	178,687	224,707	78,613
<u>4,594,412</u>	<u>10,163,309</u>	<u>14,757,721</u>	<u>500,437</u>
<u>\$ 4,640,432</u>	<u>\$ 10,341,996</u>	<u>\$ 14,982,428</u>	<u>\$ 579,050</u>



**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2005**

	<u>General</u>	<u>Township Improvement</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 584,940	\$ 1,480	\$ 598,047	\$ 46,912	\$ 1,231,379
Investments	-	786,084	100,000	42,000	928,084
Receivables -					
Property taxes	954,341	-	276,005	-	1,230,346
Interest and accounts	113,718	4,722	13,882	-	132,322
Special assessments	-	-	-	1,944	1,944
Prepaid expenditures	97,425	-	-	-	97,425
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 1,750,424</u>	<u>792,286</u>	<u>987,934</u>	<u>\$ 90,856</u>	<u>\$ 3,621,500</u>
<b>Liabilities:</b>					
Accounts payable	\$ 66,661	4,220	77,667	\$ 149	\$ 148,697
Accrued liabilities	4,325	-	-	1,121	5,446
Advances and deposits	3,662	-	-	-	3,662
Due to employees	-	-	-	12,609	12,609
Due to other governmental units	-	-	-	14,950	14,950
Deferred revenue	1,149,879	-	327,296	-	1,477,175
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>1,224,527</u>	<u>4,220</u>	<u>404,963</u>	<u>28,829</u>	<u>1,662,539</u>
<b>Fund Balances:</b>					
Reserved -					
Prepays	97,425	-	-	-	97,425
Capital projects	-	-	412,816	-	412,816
Perpetual care	-	-	-	45,136	45,136
Unreserved -					
Designated -					
Tax appeal	58,225	60,000	170,155	-	288,380
Undesignated -					
General Fund	370,247	-	-	-	370,247
Special Revenue Funds	-	728,066	-	16,891	744,957
Total Equity	<u>525,897</u>	<u>788,066</u>	<u>582,971</u>	<u>62,027</u>	<u>1,958,961</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Equity	<u>\$ 1,750,424</u>	<u>\$ 792,286</u>	<u>\$ 987,934</u>	<u>\$ 90,856</u>	<u>\$ 3,621,500</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

Fund Balances - total governmental funds	\$ 1,958,961
--	--------------

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Capital assets	3,669,261
Accumulated depreciation	( 1,207,592)

Internal Service Fund used by management to charge cost of the Townships department of public works activities. The assets and liabilities of the internal service fund (department of public works) is included in governmental activities in the statement of net assets.	266,637
--	---------

Long - term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the funds.

Accrued vacation and sick payable	<u>( 46,835)</u>
-----------------------------------	------------------

Net Assets of governmental activities	<u><u>\$ 4,640,432</u></u>
---------------------------------------	----------------------------

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Township Improvement	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 1,108,242	\$ -	\$ 213,145	\$ 117,379	\$ 1,438,766
Licenses and permits	23,091	-	-	69,727	92,818
Intergovernmental -					
Federal/State	264,180	-	-	-	264,180
Charges for services	35,881	-	-	-	35,881
Interest and rent	32,137	22,768	20,516	3,109	78,530
Other	3,762	-	14	796	4,572
Total Revenues	<u>1,467,293</u>	<u>22,768</u>	<u>233,675</u>	<u>191,011</u>	<u>1,914,747</u>
<b>Expenditures:</b>					
General Government	549,304	8,559	17,682	-	575,545
Public Safety	318,006	-	-	83,553	401,559
Public Works	218,597	-	88,343	-	306,940
Recreation and Cultural	142,011	-	-	-	142,011
Other Activities	30,231	-	-	-	30,231
Debt Service					
Principal	-	-	-	114,432	114,432
Interest	-	-	-	4,293	4,293
Total Expenditures	<u>1,258,149</u>	<u>8,559</u>	<u>106,025</u>	<u>202,278</u>	<u>1,575,011</u>
Excess of revenues over (under) expenditures	<u>209,144</u>	<u>14,209</u>	<u>127,650</u>	<u>( 11,267)</u>	<u>339,736</u>
<b>Other Financing Sources (Uses):</b>					
Transfers from other funds	13,887	-	-	-	13,887
Transfer to component units	( 4,784)	-	( 1,384)	-	( 6,168)
Transfers to other funds	( 70,808)	( 9,790)	( 124,742)	( 4,097)	( 209,437)
Total Other Financing Sources (Uses)	<u>( 61,705)</u>	<u>( 9,790)</u>	<u>( 126,126)</u>	<u>( 4,097)</u>	<u>( 201,718)</u>
Excess of revenues and other sources over (under) expenditures and other uses	147,439	4,419	1,524	( 15,364)	138,018
Fund Balances at beginning of year	<u>378,458</u>	<u>783,647</u>	<u>581,447</u>	<u>77,391</u>	<u>1,820,943</u>
Fund Balances at end of year	<u>\$ 525,897</u>	<u>\$ 788,066</u>	<u>\$ 582,971</u>	<u>\$ 62,027</u>	<u>\$ 1,958,961</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
DECEMBER 31, 2005**

Net change in fund balances - total governmental funds		\$	138,018
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			62,461
Depreciation expense		(	150,462)
Internal service fund used by management to charge costs of the Township's department of public works activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			
		(	100,152)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	114,432		
Increase in accrued vacation and sick payable	( 19,593)		
Decrease in accrued interest	<u>1,316</u>		<u>96,155</u>
Change in net assets of governmental activities		\$	<u><u>46,020</u></u>

The notes to the financial statements are an integral part of this statement.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2005**

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 151,655	\$ 693,152	\$ 844,807	\$ 99,568
Investments	-	208,221	208,221	-
Account receivable-				
Utility charges	123,784	107,622	231,406	-
Connections fees	-	1,974	1,974	-
Other	958	-	958	300
Interest receivable	-	3,143	3,143	-
Deposit with authority	16,000	32,900	48,900	-
Inventory	14,128	-	14,128	-
Prepaid expenses	4,993	4,611	9,604	16,489
Total Current Assets	<u>311,518</u>	<u>1,051,623</u>	<u>1,363,141</u>	<u>116,357</u>
<b>Restricted Assets:</b>				
Cash and cash equivalents	52,539	-	52,539	-
Investments	1,598	-	1,598	-
Taxes receivable	<u>277,845</u>	<u>-</u>	<u>277,845</u>	<u>-</u>
	<u>331,982</u>	<u>-</u>	<u>331,982</u>	<u>-</u>
<b>Property, Plant and Equipment:</b>				
Land	36,054	36,476	72,530	-
Buildings and improvement	566,710	7,426,175	7,992,885	122,297
Utility system	9,729,953	2,411,564	12,141,517	-
Machinery and equipment	<u>225,262</u>	<u>474,629</u>	<u>699,891</u>	<u>445,311</u>
	10,557,979	10,348,844	20,906,823	567,608
Less - accumulated depreciation	<u>( 2,732,947)</u>	<u>( 4,596,138)</u>	<u>( 7,329,085)</u>	<u>( 349,942)</u>
	<u>7,825,032</u>	<u>5,752,706</u>	<u>13,577,738</u>	<u>217,666</u>
<b>Other Assets:</b>				
Advance to component unit	-	90,318	90,318	-
Advance to other funds	<u>-</u>	<u>350,000</u>	<u>350,000</u>	<u>-</u>
	<u>-</u>	<u>440,318</u>	<u>440,318</u>	<u>-</u>
Total Assets	<u>\$ 8,468,532</u>	<u>\$ 7,244,647</u>	<u>\$ 15,713,179</u>	<u>\$ 334,023</u>

The accompanying notes are an integral part of these financial statements.

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 3,869	\$ 2,847	\$ 6,716	\$ 1,472
Deposits payable	-	8,221	8,221	-
Accrued liabilities	459	1,335	1,794	2,630
Accrued interest	3,118	-	3,118	-
Due to component unit	63,601	32,387	95,988	-
Contracts payable (current portion)	27,152	-	27,152	-
Total Current Liabilities	98,199	44,790	142,989	4,102
<b>Current Liabilities - (Payable from restricted assets):</b>				
Deferred revenue	329,485	-	329,485	-
Accrued interest	25,264	-	25,264	-
Contracts payable (current portion)	224,004	-	224,004	-
	578,753	-	578,753	-
<b>Long-Term Liabilities (less current portions):</b>				
Contracts payable	4,290,016	-	4,290,016	-
Advance from other funds	350,000	-	350,000	-
Accrued vacation and sick pay	4,712	4,713	9,425	63,284
Total Long-Term Liabilities	4,644,728	4,713	4,649,441	63,284
Total Liabilities	5,321,680	49,503	5,371,183	67,386
<b>NET ASSETS:</b>				
Investment in capital assets, net of related liabilities	3,255,478	5,752,706	9,008,184	217,666
Reserved - Debt retirement	2,497	-	2,497	-
Unrestricted	( 111,123)	1,442,438	1,331,315	48,971
Total Net Assets	\$ 3,146,852	\$ 7,195,144	\$ 10,341,996	\$ 266,637

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
<b>Operating Revenues:</b>				
Charges for services	\$ 656,467	\$ 618,178	\$ 1,274,645	\$ 57,023
Penalty charges	10,277	9,930	20,207	-
Equipment rentals	85,290	-	85,290	49,839
Other	5,696	14,286	19,982	-
Total Operating Revenues	<u>757,730</u>	<u>642,394</u>	<u>1,400,124</u>	<u>106,862</u>
<b>Operating Expenses:</b>				
Personnel services	35,590	71,218	106,808	146,887
Water/Sewer Authority charges	554,870	442,156	997,026	-
Supplies	9,838	2,790	12,628	27,383
Other services and charges	2,795	34,469	37,264	7,418
Insurance	-	13,341	13,341	9,637
Repairs and maintenance	6,424	19,033	25,457	2,744
Equipment rental	3,514	16,664	20,178	-
Depreciation	206,751	210,686	417,437	45,967
Other	527	1,288	1,815	1,436
Total Operating Expenses	<u>820,309</u>	<u>811,645</u>	<u>1,631,954</u>	<u>241,472</u>
Operating Loss	<u>( 62,579)</u>	<u>( 169,251)</u>	<u>( 231,830)</u>	<u>( 134,610)</u>
<b>Non-Operating Revenues (Expenses):</b>				
Property taxes	319,659	-	319,659	-
Contribution of capital assets	-	-	-	-
Interest on bonds	( 115,078)	-	( 115,078)	-
Interest earned	1,913	23,971	25,884	3,614
Total Non-Operating Revenues (Expenses)	<u>206,494</u>	<u>23,971</u>	<u>230,465</u>	<u>3,614</u>
Net Income (Loss) before transfers	<u>143,915</u>	<u>( 145,280)</u>	<u>( 1,365)</u>	<u>( 130,996)</u>
<b>Transfers In:</b>				
Transfer from General Fund	39,964	-	39,964	30,844
Transfer from Sewer and Water Authority	-	15,346	15,346	-
Transfer from Capital Projects Fund	121,912	2,830	124,742	-
	<u>161,876</u>	<u>18,176</u>	<u>180,052</u>	<u>30,844</u>
Net Income (Loss)	305,791	( 127,104)	178,687	( 100,152)
Net assets at beginning of year	<u>2,841,061</u>	<u>7,322,248</u>	<u>10,163,309</u>	<u>366,789</u>
Net Assets end of year	<u>\$ 3,146,852</u>	<u>\$ 7,195,144</u>	<u>\$ 10,341,996</u>	<u>\$ 266,637</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers	\$ 658,254	\$ 645,912	\$ 1,304,166	\$ 56,723
Payment to suppliers	( 641,066)	( 486,249)	( 1,127,315)	( 56,370)
Payment to employees	( 34,082)	( 72,478)	( 106,560)	( 122,791)
Payment for other funds for services	85,290	( 73,669)	11,621	49,839
Net cash provided (used) by operating activities	68,396	13,516	81,912	( 72,599)
<b>Cash Flows From Noncapital Financing Activities:</b>				
Due from other funds	95,680	32,387	128,067	-
Operating subsidies and other fund activities	161,876	18,176	180,052	30,844
Net cash provided by noncapital financing activities	257,556	50,563	308,119	30,844
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Bond payments -				
Principal	( 247,762)	-	( 247,762)	-
Interest and fiscal charges	( 116,627)	-	( 116,627)	-
Acquisition/construction/disposal of capital assets	( 121,916)	( 18,176)	( 140,092)	-
Property Taxes	322,073	-	322,073	-
Net cash used by capital and related financing activities	( 164,232)	( 18,176)	( 182,408)	-
<b>Cash Flows From Investing Activities:</b>				
Interest earned	1,913	23,400	25,313	3,614
Sale of investments	1,574	603,868	605,442	35,392
Net cash provided by investing activities	3,487	627,268	630,755	39,006
Net Increase (Decrease) in Cash and Cash Equivalents for the year	165,207	673,171	838,378	( 2,749)
Cash and Cash Equivalents at Beginning of Year	38,987	19,981	58,968	4,949
Cash and Cash Equivalents at End of Year	\$ 204,194	\$ 693,152	\$ 897,346	\$ 2,200
<b>Reconciliation of Net Loss to Net Cash Provided (Used) by Operating Activities:</b>				
Operating loss for the year	\$( 62,579)	\$( 169,251)	\$( 231,830)	\$( 134,610)
Adjustments to reconcile operating loss to net cash used by operating activities -				
Depreciation	206,751	210,686	417,437	45,967
Change in assets and liabilities:				
Receivables	( 14,186)	3,518	( 10,668)	( 300)
Prepaid expenses	( 3,688)	9,359	5,671	( 6,678)
Due from/to other funds	( 55,282)	( 41,282)	( 96,564)	-
Inventory	( 6,043)	-	( 6,043)	-
Accounts payable/accrued liabilities	1,983	( 582)	1,401	( 319)
Vacation and sick time	1,440	1,068	2,508	23,341
Net Cash Provided (Used) By Operating Activities	\$ 68,396	\$ 13,516	\$ 81,912	\$( 72,599)

The accompanying notes are an integral part of these financial statements.



**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**DECEMBER 31, 2005**

**ASSETS:**

Cash and cash equivalents	\$ 916,389
Accounts receivable	<u>15,917</u>
Total Assets	<u><u>\$ 932,306</u></u>

**LIABILITIES:**

Due to other governmental units	<u><u>\$ 932,306</u></u>
---------------------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF EAST CHINA****St. Clair County, Michigan****COMBINING STATEMENT OF NET ASSETS  
DISCRETELY PRESENTED COMPONENT UNITS  
DECEMBER 31, 2005**

	Sewer/Water Authority	Brownfield Redevelopment Authority	Totals
<b>ASSETS</b>			
Cash	\$ 416,366	\$ 36,177	\$ 452,543
Investments	256,190	-	256,190
Interest receivable	671	-	671
Due from primary government	95,988	-	95,988
Due from Charter Township of China	22,548	-	22,548
Prepaid expenditures	29,437	-	29,437
Total Assets	821,200	36,177	857,377
<b>LIABILITIES</b>			
Accounts payable	15,943	25,923	41,866
Accrued salaries and wages	8,501	-	8,501
Accrued payroll taxes	650	-	650
Accrued vacation	12,160	-	12,160
Deposits payable	56,000	-	56,000
Non-current liabilities			
Due in more than one year			
Advance from primary government	90,318	-	90,318
Accrued vacation and sick leave	68,832	-	68,832
Total Liabilities	252,404	25,923	278,327
<b>Net Assets:</b>			
Unrestricted	\$ 568,796	\$ 10,254	\$ 579,050

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**COMBINING STATEMENT OF ACTIVITIES**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Water/Sewer Authority</b>				
Business Type Activities				
Water and Sewer	\$ 1,060,290	\$ 1,060,290	\$ -	\$ 93,000
<b>Brownfield Redevelopment Authority</b>				
Governmental Activities				
Public Works	90,127	-	-	-

General Revenues:  
Property Taxes  
Transfers In (Out)  
Unrestricted investment income

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

<u>Sewer/Water Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
<u>\$ 93,000</u>	<u>\$ -</u>	<u>\$ 93,000</u>
<u>-</u>	<u>( 90,127)</u>	<u>( 90,127)</u>
-	65,638	65,638
( 15,346)	6,168	( 9,178)
<u>18,972</u>	<u>308</u>	<u>19,280</u>
<u>3,626</u>	<u>72,114</u>	<u>75,740</u>
96,626	( 18,013)	78,613
<u>472,170</u>	<u>28,267</u>	<u>500,437</u>
<u>\$ 568,796</u>	<u>\$ 10,254</u>	<u>\$ 579,050</u>

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

The Charter Township of East China, Michigan, a Municipal Corporation, was organized as a Township on February 12, 1859, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on November 6, 1979, under Public Act 359, the Charter Township Act. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 5.7 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 3,600 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

These financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

**DISCRETELY PRESENTED COMPONENT UNITS -**

**The St. Clair River Sewer and Water Authority** - The Authority was established by the Charter Townships of China and East China for the purpose of operating and maintaining a sanitary sewage treatment plant and water filtration plant in accordance with Act 233 Public Acts of Michigan, 1955, as amended. The sewer facility commenced operations in July 1983 and the water facility began operations in July 2001.

The St. Clair River Sewer and Water Authority operates under a five (5) member Board of Commissioners appointed by the Charter Townships Boards, which establish policy and review operations.

The St. Clair River Sewer and Water Authority has contracted with the Charter Township of East China to perform the administration, operations and maintenance of the facility. The Authority charges the Charter Townships for sewer services and water services, and it is the Townships' responsibility to charge the individual users. The Sewer plant and systems are recorded in the respective Charter Townships' Sewer Funds based on ownership. The Charter Township of East China owns 71.52% of the sewer plant. The Water plant and systems are recorded in the respective Charter Townships' Water Funds based on ownership. The Charter Township of East China owns 67.88% of the Water plant.

Complete financial statements of the St. Clair River Sewer and Water Authority may be obtained from the Charter Township of East China at 5111 River Road, East China, MI 48054.

**Brownfield Redevelopment Authority** - The Authority was created to promote the revitalization of environmentally distressed areas. The Authority is under the supervision of the Board, with the eight to ten member Board appointed by the Supervisor and confirmed by the Township Board.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**B. Government-wide and fund financial statements -**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type-activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods services, or privileges provided by a given function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation -**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2004 levy in 2005). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

**General Fund** – is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Township Improvement Fund** – is a special revenue fund used to account for non-tax revenue set aside for statutory public improvements.

**Capital Projects Fund** – is used to account for financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds).

The Township reports the following major proprietary funds:

**Water Fund** – is used to account for the treatment and distribution of water to residential and commercial users.

**Sewer Fund** – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Township reports the following fund types:

**Special Revenue Fund** – is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Debt Service Fund** – is used to account for accumulation of resources for and the payment of, general long-term debt principal, interest and related costs.

**Agency Fund** – is used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

# CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds is charged to customers for sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources, as they are needed.

#### **D. Assets, Liabilities and Net Assets or Equity –**

##### **Deposits and Investments –**

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits. The investment trusts have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as investments.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at the carrying amount which reasonably approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

##### **Receivables and Payables –**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".



**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

**Inventories and Prepaid Items –**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

**Property Tax Calendar –**

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. Property taxes are recognized as revenues in the year they were intended to finance (the 2004 levy is recognized in 2005).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

**Capital Assets –**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. shared roads and bridge improvements, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to January 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Land improvements	10-25
Buildings and improvements	10-60
Utility systems	60
Machinery and equipment	3-25

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Compensated Absences –**

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts.

**Long-Term Obligations –**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity –**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates –**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information –**

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):**

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the function level for the General Fund and Special Revenue Funds. The function level is the legal level requiring approval by the Board for amendments; however, for control purposes, all the budgets are maintained at the account level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended December 31, 2005, the Township incurred expenditures in a Special Revenue Fund which was in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
Building Inspection Fund – Contracted Services	2,577	2,727	150

**Deficit Fund Balance –**

As of December 31, 2005 the Water Fund (Business-Type Activity-Enterprise Fund) of the Township had a deficit unrestricted net assets of \$111,123. The Charter Township is in its second year of the deficit elimination plan that has been filed with the Department of Treasury.

**NOTE 3 – DEPOSITS AND INVESTMENTS:**

**Authorized Deposits and Investments**

The Township's investment policy and Act 20 PA 1943, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):**

Act 20 PA 1943 as amended authorizes the Township to invest surplus funds in bonds, securities and other obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

As of December 31, 2005, the carrying amount of the deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Unit	Total
Deposits –				
Cash on hand –				
Petty Cash	\$ 1,188	\$ -	\$ -	\$ 1,188
Deposits with Financial Institutions	2,227,105	916,389	452,543	3,596,037
Checking and Savings Accounts				
Certificates of Deposits	<u>200,000</u>			<u>200,000</u>
Total Deposits	<u>2,428,293</u>	<u>916,389</u>	<u>452,543</u>	<u>3,797,225</u>
Investments –				
Federal Home Loan	300,000	-	100,000	400,000
Investment Trust Funds	595,903	-	156,190	752,093
Certificates of Deposits	<u>42,000</u>	-	-	<u>42,000</u>
Total Investments	<u>937,903</u>	<u>-</u>	<u>256,190</u>	<u>1,194,093</u>
Grand Total	<u>\$ 3,366,196</u>	<u>\$ 916,389</u>	<u>\$ 708,733</u>	<u>\$ 4,991,318</u>
Reconciliation To Statement of Net Assets				
Reported as Cash and Cash Equivalents –				
Petty Cash	\$ 1,188	\$ -	\$ -	\$ 1,188
Deposits with Financial Institutions	<u>2,227,105</u>	<u>916,389</u>	<u>452,543</u>	<u>3,596,037</u>
Total Cash and Cash				
Equivalents Reported on				
Statement of Net Assets	<u>2,228,293</u>	<u>916,389</u>	<u>452,543</u>	<u>3,597,225</u>
Reported as Investments –				
Federal Home Loan	300,000	-	100,000	400,000
Investment Trust Funds	595,903	-	156,190	752,093
Certificates of Deposits	<u>242,000</u>	-	-	<u>242,000</u>
	<u>1,137,903</u>	<u>-</u>	<u>256,190</u>	<u>1,394,093</u>
Grand Total Statement of Net Assets	<u>\$ 3,366,196</u>	<u>\$ 916,389</u>	<u>\$ 708,733</u>	<u>\$ 4,991,318</u>

The Township's investment policy primary objectives, in order of priority, are safety, diversification, liquidity and return on investment. The Township Treasurer is responsible for the investment program.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):**

**Deposits**

The certificates of deposit and investment trust funds have been reported in the financial statements as investments even though several certificates of deposit do not have a maturity of more than 90 days from date of purchase and the investment trust funds have characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting as investments is that it is the intent of the Township to reinvest the certificates of deposit and not make regular withdrawals from the investment trusts since the funds are part of the Charter Township's pooled investment program.

***Custodial Credit Risk - Deposits*** – is the risk that in the event of a bank failure, the Township's deposit or investments may not be returned.

As of December 31, 2005, the bank balance of the Township's deposits was \$3,909,140, of which \$445,136 was FDIC insured with the balance of \$3,464,004 was exposed to credit risk as it was uninsured and uncollateralized.

**Investments**

***Custodial Credit Risk - Investments*** – is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments that are in the possession of another side party. As of December 31, 2005, \$442,000 in investment was held in third-party safekeeping in the Township's name.

***Interest Rate Risk - Investments*** – is the risk that in the event that the market value of securities in the Township portfolio will fail due to changes in the market interest increases. The Township attempts to minimize interest rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short term securities and money markets funds.

	<u>Investment Maturities (fair value by years)</u>		
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>
U.S. Agency Securities	\$ 400,000	\$ -	\$ 400,000
Certificates of Deposit	242,000	200,000	42,000
Investment Trust Funds	752,093	752,093	-

***Credit Risk - Investments*** – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws and Township policy limit the types of investments the Township can purchase.

As of December 31, 2005, all of the Township's holdings in investment trust funds of \$752,093 received a rating of AAA by Standard & Poor's and Aaa by Moody's.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):**

***Concentration of Credit Risk - Investments*** – is the risk of loss attributed to the magnitude of the Township's investment in a single issuer. The Township's investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. As at December 31, 2005, the Township had greater than 5% of its total investment portfolio concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Investments</u>
U.S. Agency Securities	Federal Home Loan Bank	33.5%
Investment Trust Funds	Chase Bank	17.8
Investment Trust Funds	Comerica Bank	45.1

**NOTE 4 - TAXES:**

The Township property taxes are levied each December on the assessed valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2005 levy has a State Equalized Value (SEV) of \$469,529,045 and a taxable value of \$486,337,929.

The millage rates levied by the Township were 2.327 for General Operating, .6730 for Capital Projects Fund, and .6775 for Water Fund (Debt Service).

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

**NOTE 5 - RECEIVABLES:**

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Taxes	\$ 1,230,346	\$ 277,845
Accounts and Interest	20,970	237,481
Intergovernmental	<u>113,596</u>	<u>-</u>
	<u>\$ 1,364,912</u>	<u>\$ 515,326</u>

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 5 – RECEIVABLES – (cont'd):**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, as well as business funds, also defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental-Type Activities		
General Fund –		
Property Taxes	\$ _____ -	\$ <u>1,149,879</u>
Capital Projects Fund –		
Property Taxes	_____ -	_____ <u>327,296</u>
Business-Type Activities		
Water Fund –		
Property Taxes	_____ -	_____ <u>329,485</u>
	\$ _____ -	\$ <u>1,806,660</u>

**NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

The composition of interfund balances as of December 31, 2004:

**Due To/From Primary Government and Component Unit –**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Authority	Water Fund	\$ 63,601
Sewer Authority	Sewer Fund	_____ <u>32,387</u>
		\$ _____ <u>95,988</u>

**Transfers From/To Other Funds –**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Water Fund	General Fund	\$ 39,964
Internal Service	General Fund	30,844
General Fund	Cemetery Perpetual Care	1,135
General Fund	Township Improvement Fund	9,790
General Fund	Debt Service Fund	2,962
Sewer Fund	Capital Projects Fund	2,830
Water Fund	Capital Projects Fund	_____ <u>121,912</u>
		\$ _____ <u>209,437</u>

**Transfers From/To Component Units –**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Brownfield Authority	General Fund	\$ 4,784
Brownfield Authority	Capital Projects Fund	1,384
Sewer Fund	Sewer and Water Authority	_____ <u>15,346</u>
		\$ _____ <u>21,514</u>

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 7 - INTERFUND ADVANCES:**

Interfund advances described as Advances To/From Other Fund, reflect long-term amounts due or owed to a particular fund by another fund of the township. These amounts include current portion of long-term loans. A summary of these balances at December 31, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Advance To/From Primary Government</b>		
Sewer Fund	Water Fund	<u>\$ 350,000</u>
<b>Advance To/From Primary Government and Component Unit</b>		
Sewer Fund	Water Authority	<u>\$ 90,318</u>

**NOTE 8 - CAPITAL ASSETS:**

**Primary Government**

Capital asset activity of the primary government for the year ended December 31, 2005 was as follows:

	<u>Jan. 1, 2005 Balance</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>Dec. 31, 2005 Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	<u>\$ 124,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,442</u>
Capital assets, being depreciated:				
Land improvements	2,490,138	27,550	-	2,517,688
Buildings and improvements	1,010,958	16,220	( 63,547)	963,631
Machinery and equipment	<u>548,870</u>	<u>18,691</u>	<u>63,547</u>	<u>631,108</u>
Total capital assets being depreciated	<u>4,049,966</u>	<u>62,461</u>	<u>-</u>	<u>4,112,427</u>
Less accumulated depreciation for:				
Land improvements	804,164	123,286	-	927,450
Buildings and improvements	205,369	18,284	-	223,653
Machinery and equipment	<u>351,572</u>	<u>56,844</u>	<u>( 1,985)</u>	<u>406,431</u>
Total accumulated depreciation	<u>1,361,105</u>	<u>198,414</u>	<u>( 1,985)</u>	<u>1,557,534</u>
Total capital assets being depreciated, net	<u>2,688,861</u>	<u>( 135,953)</u>	<u>1,985</u>	<u>2,554,893</u>
Governmental activities capital assets, net	<u>\$ 2,813,303</u>	<u>\$( 135,953)</u>	<u>\$ 1,985</u>	<u>\$ 2,679,335</u>



**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 8 - CAPITAL ASSETS – (cont'd):**

	<u>Jan. 1, 2005</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>Dec. 31, 2005</u> <u>Balance</u>
<b>Business Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 72,530	\$ -	\$ -	\$ 72,530
Capital assets, being depreciated:				
Buildings and improvements	7,992,885	-	-	7,992,885
Utility systems	12,016,898	124,619	-	12,141,517
Equipment	<u>684,323</u>	<u>15,469</u>	<u>99</u>	<u>699,891</u>
Total capital assets being depreciated	20,694,106	140,088	99	20,834,293
Less accumulated depreciation	<u>( 6,911,551)</u>	<u>( 417,437)</u>	<u>-</u>	<u>( 7,329,085)</u>
Total capital assets being depreciated, net	<u>13,782,555</u>	<u>( 277,446)</u>	<u>99</u>	<u>13,505,208</u>
Business activities capital assets, net	<u>\$13,855,085</u>	<u>\$ ( 277,446)</u>	<u>\$ 99</u>	<u>\$ 13,577,738</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 22,477
Recreation and Culture	<u>127,985</u>
Total depreciation expense-governmental activities	<u>\$ 150,462</u>
Business-type activities:	
Water and Sewer Operation	<u>\$ 417,437</u>

In addition, there was depreciation of \$47,952 in the Internal Service Fund (Department of Public Works).

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 9 - LONG-TERM DEBT:**

The following is a summary of changes in long-term liabilities (including current portion) of the Primary Government for the year ended December 31, 2005:

	<u>Balance</u> <u>January 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2005</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Sewage Disposal System –					
Contract Payable –					
No. III, Series III –					
1989 Refunding Bond	\$ 114,432	\$ -	\$ 114,432	\$ -	\$ -
Accrued vacation and sick					
leave	<u>57,409</u>	<u>52,710</u>	<u>-</u>	<u>110,119</u>	<u>-</u>
	<u>171,841</u>	<u>52,710</u>	<u>114,432</u>	<u>110,119</u>	<u>-</u>
<b>Business-type Activities:</b>					
Water Fund –					
Water Supply System –					
Contract Payable –					
1999 Department of					
Environmental Quality Bonds	4,788,934	-	247,762	4,541,172	257,156
Accrued vacation and sick					
leave	<u>5,574</u>	<u>3,851</u>	<u>-</u>	<u>9,425</u>	<u>-</u>
	<u>4,794,508</u>	<u>3,851</u>	<u>247,762</u>	<u>4,550,597</u>	<u>257,156</u>
Total Primary Government	<u>\$ 4,966,349</u>	<u>\$ 56,561</u>	<u>\$ 362,194</u>	<u>\$ 4,660,716</u>	<u>\$ 257,156</u>

Significant details regarding outstanding long-term liabilities (including current portions) are presented as follows:

**Water Supply System 1999 Department of Environmental Quality Bonds:**

In order to finance the cost of constructing a new Water Filtration Plant, the Charter Township of East China along with the Charter Township of China through the St. Clair County Department of Public Works have participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$7,500,000 (Issue A) and \$925,000 (Issue B).

The amount is apportioned between the Charter Township of East China and China in the ratio of 67.88% and 32.12%, respectively.

The Townships are required to make payments to the St Clair County DPW to meet debt service requirements. It is the intention of the Charter Township of East China to pay the obligation for Issue A to the County from property taxes and Issue B from the water fund (subsidized by the general fund). Upon final payment of the respective bond issues ownership of 67.88% of the system will revert to the Township.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 9 - LONG-TERM DEBT - (cont'd):**

The balance of the Issue A and Issue B bonds payable at December 31, 2005, which represent the 67.88% apportioned to the Charter Township of East China is \$4,042,254 and \$498,918, respectively. The annual requirements to pay the principal and interest on the Issue A and Issue B Department of Environment Quality Bonds are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2006	2.50%	\$ 251,156	\$ 110,390	\$ 361,546
2007	2.50	257,944	104,026	361,970
2008	2.50	268,126	97,451	365,577
2009	2.50	271,520	90,705	362,225
2010	2.50	278,308	83,832	362,140
2011-2015	2.50	1,506,936	309,448	1,816,384
2016-2020	2.50	<u>1,707,182</u>	<u>108,989</u>	<u>1,816,171</u>
		<u>\$ 4,541,172</u>	<u>\$ 904,841</u>	<u>\$ 5,446,013</u>

**Accrued Vacation and Sick Pay -**

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The Governmental Fund portion of \$110,119 as well as the Enterprise Fund portion of \$9,425, has been recorded in the government-wide financial statements as a long-term liability.

\$ 119,544

In addition, \$68,832 was recorded in the Component Unit St. Clair River Sewer and Water Authority Fund.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 10 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Charter Township of East China participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Charter Township Board requires members to contribute 4.7% of the annual compensation. The Township is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Township are established and may be amended by the Township, depending on the MERS contribution program adopted by the Township.

**Annual Pension Costs -**

For fiscal year 2005, the Charter Township's annual pension cost of \$92,656 for MERS was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 2002, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% (annually) after retirement. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value.

**Three-Year Trend Information**

<u>Fiscal Year Ending December 31,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2002	\$ 51,176	100 %	-
2003	71,888	100	-
2004	88,374	100	-

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Un-funded (Over-funded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2002	\$ 3,371,145	\$ 4,048,542	\$ 677,397	83.00 %	\$ 703,178	96.00 %
2003	3,592,555	4,191,713	599,158	86.00	730,232	82.00
2004	3,797,803	4,681,740	883,937	81.00	725,516	122.00

**NOTE 11 - RESTRICTED ASSETS:**

The restricted assets of \$331,982 in the Water Fund are for capital improvements/debt retirement.

**NOTE 12 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:**

The Detroit Edison Plant, located within the Township, provides a significant portion of both property tax and utility revenues. Such revenues and the approximate percentage of the total individual revenues for the year ended December 31, 2005 are summarized below:

	Revenues Provided	Approximate Percentage
Property taxes	\$ 1,166,539	66.34 %
Wastewater treatment service	179,970	29.04
Water purchases	74,950	11.42

**NOTE 13 - CONTINGENT LIABILITIES:**

**Primary Government –**

One of the Township's major taxpayers, the Detroit Edison Company, is appealing its tax assessments for the 2002 through 2005 tax assessments. The taxpayer has paid the contested amount. Should the taxpayer prevail, the Township would be required to refund approximately \$1,890,000 plus interest for 2002 through 2004 tax levy. In addition, the Township would be required to refund approximately \$670,000 for 2005 tax levy, which is recorded as revenue by the Township in 2006. The Township has designated a portion of fund balance for the contested amounts (See Note 14). The Township intends to vigorously defend the original assessments and believes they will prevail. Due to the matter of the appeal, it is impossible to estimate any potential liability, if any.

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 14 - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:**

**Reserved Fund Balance/Retained Earnings –**

Fund Balance/Retained Earnings has been reserved/designated in the various fund types to indicate that a portion of the Fund Balance/Retained Earnings is not available but reserved for specific purposes:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Reserved –		
Fund Balance –		
General	Prepaid Expenditures	\$ 97,425
Capital Projects	Capital Projects	412,816
Cemetery Perpetual Care	Perpetual Care	<u>45,136</u>
		<u>\$ 555,377</u>
Retained Earnings –		
Water Fund	Debt Retirement	<u>\$ 2,497</u>
Designated –		
Fund Balance –		
General	Tax Appeal	\$ 58,225
Township Improvement	Tax Appeal	60,000
Capital Projects	Tax Appeal	<u>170,155</u>
		<u>\$ 288,380</u>

**NOTE 15 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, Injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, the Township would be responsible should the limit of coverage's be exceeded. The amount of the settlement claims for the last three years has not exceeded insurance coverage.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 1,080,235	\$ 1,103,371	\$ 1,108,242	\$ 4,871
Licenses and permits	17,200	18,754	23,091	4,337
Intergovernmental				
State	255,745	259,810	255,480	( 4,330)
Local	13,500	8,700	8,700	-
Charges for services	36,445	35,881	35,881	-
Interest and rent	22,600	31,660	32,137	477
Other revenue	7,300	22,302	3,762	( 18,540)
Total revenues	<u>1,433,025</u>	<u>1,480,478</u>	<u>1,467,293</u>	<u>( 13,185)</u>
<b>Expenditures:</b>				
General government	587,080	551,711	549,304	2,407
Public safety	301,835	324,974	318,006	6,968
Public works	219,735	219,398	218,597	801
Health and welfare	100	51	51	-
Recreation and culture	175,020	142,390	142,011	379
Other	90,440	36,467	30,180	6,287
Total expenditures	<u>1,374,210</u>	<u>1,274,991</u>	<u>1,258,149</u>	<u>16,842</u>
Excess of revenues over expenditures	<u>58,815</u>	<u>205,487</u>	<u>209,144</u>	<u>3,657</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	13,887	13,887
Transfers out	( 74,755)	( 75,592)	( 75,592)	-
Total other financing sources (uses)	<u>( 74,755)</u>	<u>( 75,592)</u>	<u>( 61,705)</u>	<u>13,887</u>
Excess of revenues over (under) expenditures and other uses	( 15,940)	129,895	147,439	17,544
Fund Balance at beginning of year	<u>378,458</u>	<u>378,458</u>	<u>378,458</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 362,518</u>	<u>\$ 508,353</u>	<u>\$ 525,897</u>	<u>\$ 17,544</u>



**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**TOWNSHIP IMPROVEMENT FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Interest on investments	\$ 11,000	\$ 22,685	\$ 22,768	\$ 83
<b>Expenditures:</b>				
General Government	100,000	8,559	8,559	-
Excess of revenues over (under) expenditures	( 89,000)	14,126	14,209	83
<b>Other Financing Uses:</b>				
Transfers Out	-	( 9,790)	( 9,790)	-
Excess of revenues over (under) expenditures and other uses	(89,000)	4,336	4,419	83
Fund Balance at beginning of year	783,647	783,647	783,647	-
Fund Balance at end of year	<u>\$ 694,647</u>	<u>\$ 787,983</u>	<u>\$ 788,066</u>	<u>\$ 83</u>

## **SUPPLEMENTARY INFORMATION**

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2005**

	Special Revenue Fund	Debt Service Fund 1989	Permanent Fund	
	Building Inspections	Refunding Debt Service	Cemetery Perpetual	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 43,776	\$ -	\$ 3,136	\$ 46,912
Investments	-	-	42,000	42,000
Receivables -		-		
Other	1,944	-	-	1,944
Total Assets	<u>\$ 45,720</u>	<u>\$ -</u>	<u>\$ 45,136</u>	<u>\$ 90,856</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 149	\$ -	\$ -	\$ 149
Accrued liabilities	1,121	-	-	1,121
Due to employees	12,609	-	-	12,609
Due to individuals	14,950	-	-	14,950
Total Liabilities	<u>28,829</u>	<u>-</u>	<u>-</u>	<u>28,829</u>
<b>Fund Balance:</b>				
Reserved -				
Perpetual Care	-	-	45,136	45,136
Unreserved -				
Undesignated	16,891	-	-	16,891
Total Fund Balance	<u>16,891</u>	<u>-</u>	<u>45,136</u>	<u>62,027</u>
Total Liabilities and Fund Balance	<u>\$ 45,720</u>	<u>\$ -</u>	<u>\$ 45,136</u>	<u>\$ 90,856</u>

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Special Revenue Fund	Debt Service Fund	Permanent Fund	
	Building Inspections	1989 Refunding Debt	Cemetery Perpetual	Total
<b>Revenues:</b>				
Property taxes	\$ -	\$ 117,379	\$ -	\$ 117,379
Permits	69,727	-	-	69,727
Interest	1,716	244	1,149	3,109
Other	38	8	750	796
Total Revenues	<u>71,481</u>	<u>117,631</u>	<u>1,899</u>	<u>191,011</u>
<b>Expenditures:</b>				
Public Safety -				
Salaries and fringes	80,826	-	-	80,826
Contracted services	2,727	-	-	2,727
Debt Service -				
Principal	-	114,432	-	114,432
Interest	-	4,293	-	4,293
Total Expenditures	<u>83,553</u>	<u>118,725</u>	<u>-</u>	<u>202,278</u>
Excess of revenues over (under) expenditures	( 12,072)	( 1,094)	1,899	( 11,267)
<b>Other Financing Uses:</b>				
Transfers out	<u>-</u>	<u>( 2,962)</u>	<u>( 1,135)</u>	<u>( 4,097)</u>
Excess of revenues over (under) expenditures and other uses	( 12,072)	( 4,056)	764	( 15,364)
Fund Balances at beginning of year	<u>28,963</u>	<u>4,056</u>	<u>44,372</u>	<u>77,391</u>
Fund Balances at end of year	<u>\$ 16,891</u>	<u>\$ -</u>	<u>\$ 45,136</u>	<u>\$ 62,027</u>

**CHARTER TOWNSHIP OF EAST CHINA****St. Clair County, Michigan**

**BUILDING INSPECTION FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Permits	\$ 77,400	\$ 69,716	\$ 69,727	\$ 11
Interest	850	1,716	1,716	-
Other	30	692	38	( 654)
Total Revenues	<u>78,280</u>	<u>72,124</u>	<u>71,481</u>	<u>( 643)</u>
<b>Expenditures:</b>				
Public Safety				
Salaries and fringe benefits	67,415	81,164	80,826	338
Contracted service	6,650	2,577	2,727	( 150)
Total Expenditures	<u>74,065</u>	<u>83,741</u>	<u>83,553</u>	<u>188</u>
Excess of revenues over (under) expenditures	4,215	( 11,617)	( 12,072)	( 455)
Fund Balance at beginning of year	<u>28,963</u>	<u>28,963</u>	<u>28,963</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 33,178</u>	<u>\$ 17,346</u>	<u>\$ 16,891</u>	<u>\$( 455)</u>

**CHARTER TOWNSHIP OF EAST CHINA**  
**St. Clair County, Michigan**

**CURRENT TAX FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<b>Assets:</b>				
Cash	\$ 1,045,173	\$ 19,006,550	\$ 19,135,334	\$ 916,389
Accounts receivable	11,184	28,466	23,733	15,917
	<u>1,056,357</u>	<u>19,035,016</u>	<u>19,159,067</u>	<u>932,306</u>
Total Assets	<u>\$ 1,056,357</u>	<u>\$ 19,035,016</u>	<u>\$ 19,159,067</u>	<u>\$ 932,306</u>
<b>Liabilities:</b>				
Due to other funds	\$ -	\$ 1,829,602	\$ 1,829,602	\$ -
Due to other governmental units -				
Undistributed taxes	1,056,357	17,156,512	17,280,563	932,306
	<u>1,056,357</u>	<u>17,156,512</u>	<u>17,280,563</u>	<u>932,306</u>
Total Liabilities	<u>\$ 1,056,357</u>	<u>\$ 18,986,114</u>	<u>\$ 19,110,165</u>	<u>\$ 932,306</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Supervisor and Members of  
The Township Board  
Charter Township of East China  
St. Clair County, Michigan

We have audited the financial statements of the Charter Township of East China, Michigan, as of and for the year ended December 31, 2005, and have issued our report thereon, dated April 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Charter Township of East China, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Charter Township of East China, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, which are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, administration and the Township Board, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

April 7, 2006